

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 315 – HB 338

February 4, 2019

SUMMARY OF BILL: Phases out the occupational privilege tax on all occupations subject to the \$400 annual tax by reducing the tax by \$100 (or to \$300) for each FY20-21 through FY22-23, and further reduces the tax by \$300 in FY23-24 and subsequent years, effectively terminating the tax. Establishes legislative intent that the tax be reduced by \$100 annually through enactments of general bills beginning with the first annual session of the 112th General Assembly.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$23,375,600/FY20-21
\$23,375,600/FY21-22
\$23,375,600/FY22-23
\$93,502,500/FY23-24 and Subsequent Years

Decrease State Expenditures – \$243,600/FY20-21
\$243,600/FY21-22
\$243,600/FY22-23
\$974,400/FY23-24 and Subsequent Years

Increase Local Revenue – \$116,000/FY20-21
\$116,000/FY21-22
\$116,000/FY22-23
\$464,200/FY23-24 and Subsequent Years

Other Fiscal Impact – To the extent the General Assembly further reduces the privilege tax rate annually through enactment of a general bill, and that such reductions are equal to \$100 each year, beginning in FY20-21, the net decreases in state revenue* and increases in local revenue are estimated to be: (\$23,375,600) for the state and \$116,000 for the locals in FY20-21; (\$46,751,300) for the state and \$232,100 for the locals in FY21-22; (\$70,126,900) for the state and \$348,100 for the locals in FY22-23; and (\$93,502,500) for the state and \$464,200 for the locals in FY23-24 and subsequent years. The net decrease in state expenditures for the state is estimated to be: \$243,600 in FY20-21; \$487,200 in FY21-22; \$730,800 in FY22-23; and \$974,400 in FY23-24 and subsequent years.

*net decreases in state revenue denoted parenthetically

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 annual tax on persons engaging in certain occupations in Tennessee as specified in Tenn. Code Ann. § 67-4-1702.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The Department of Revenue (DOR) reports that there are approximately 236,600 occupational privilege taxpayers, annually paying approximately \$94,640,000 in occupational privilege taxes (236,600 x \$400). The tax is due June 1 of each year and it is paid for the following twelve months. The total number of taxpayers is assumed to remain constant into perpetuity.
- The current tax collection schedule and amounts are estimated as follows:

UNDER CURRENT LAW				
<u>Tax Year End Date</u>	<u>Current Tax Rate</u>	<u>Current Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2019	\$ 400	\$ 94,640,000	June 1, 2018	FY17-18
May 31, 2020	\$ 400	\$ 94,640,000	June 1, 2019	FY18-19
May 31, 2021	\$ 400	\$ 94,640,000	June 1, 2020	FY19-20
May 31, 2022	\$ 400	\$ 94,640,000	June 1, 2021	FY20-21
May 31, 2023	\$ 400	\$ 94,640,000	June 1, 2022	FY21-22
May 31, 2024	\$ 400	\$ 94,640,000	June 1, 2023	FY22-23
May 31, 2025 Subsequent Years	\$ 400	\$ 94,640,000	June 1, 2024	FY23-24

- This legislation would reduce the tax rate by \$100 (or to \$300) for each FY20-21 through FY22-23, and further reduce the tax by \$300 (or to \$0) for FY23-24 and subsequent years.
- The proposed tax collection schedule and amounts under this legislation are estimated as follows:

UNDER THIS BILL				
<u>Tax Year End Date</u>	<u>New Tax Rate</u>	<u>New Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2019	\$ 400	\$ 94,640,000	June 1, 2018	FY17-18
May 31, 2020	\$ 400	\$ 94,640,000	June 1, 2019	FY18-19
May 31, 2021	\$ 400	\$ 94,640,000	June 1, 2020	FY19-20
May 31, 2022	\$ 300	\$ 70,980,000	June 1, 2021	FY20-21
May 31, 2023	\$ 300	\$ 70,980,000	June 1, 2022	FY21-22
May 31, 2024	\$ 300	\$ 70,980,000	June 1, 2023	FY22-23
May 31, 2025 and Subsequent Years	\$ -	\$ -	June 1, 2024	FY23-24 and subsequent years

- The resulting decrease in state revenue is estimated as follows:

PRIVILEGE TAX DECREASE	
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>
FY17-18	\$ -
FY18-19	\$ -
FY19-20	\$ -
FY20-21	\$ 23,660,000
FY21-22	\$ 23,660,000
FY22-23	\$ 23,660,000
FY23-24 and Subsequent Years	\$ 94,640,000

- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- The DOR reports that there are approximately 2,436 state employees for which the State of Tennessee is paying a total of \$974,400 per year (2,436 x \$400). The number of state employees is included in the total number of 236,600 taxpayers, and is assumed to remain constant into perpetuity.
- The Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (*The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly*) reports that 64 percent of occupational privilege taxpayers reside out of Tennessee, while 36 percent reside in the state.
- It is assumed that 50 percent of tax savings by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales-taxable goods and services.
- The decrease in state tax collections from state employees, the equivalent decrease in state expenditures for such employees, the net tax savings, and the amount of such tax savings re-spent in the economy on sales-taxable goods and services are estimated as follows:

STATE EMPLOYEE PORTION/TAX SAVINGS			
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections from State Employees/Decrease in State Expenditures</u>	<u>Net Tax Savings</u>	<u>Tax Savings Re-Spent in Economy on Sales-Taxable Goods and Services</u>
FY17-18	\$ -	\$ -	\$ -
FY18-19	\$ -	\$ -	\$ -
FY19-20	\$ -	\$ -	\$ -
FY20-21	\$ 243,600	\$ 23,416,400	\$ 4,214,952
FY21-22	\$ 243,600	\$ 23,416,400	\$ 4,214,952
FY22-23	\$ 243,600	\$ 23,416,400	\$ 4,214,952
FY23-24 and subsequent years	\$ 974,400	\$ 93,665,600	\$ 16,859,808

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue and the total increase in local sales tax revenue are estimated as follows:

SALES TAX INCREASES		
<u>Fiscal Year</u>	<u>Net Increase in State Sales Tax Collections</u>	<u>Total Increase in Local Sales Tax Collections</u>
FY17-18	\$ -	\$ -
FY18-19	\$ -	\$ -
FY19-20	\$ -	\$ -
FY20-21	\$ 284,375	\$ 116,046
FY21-22	\$ 284,375	\$ 116,046
FY22-23	\$ 284,375	\$ 116,046
FY23-24 and subsequent years	\$ 1,137,499	\$ 464,183

- The net decrease in state revenue as a result of this legislation is estimated as follows:

NET STATE REVENUE IMPACT			
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>	<u>Net Increase in State Sales Tax Collections</u>	<u>Net Decrease in State Tax Revenue</u>
FY17-18	\$ -	\$ -	\$ -
FY18-19	\$ -	\$ -	\$ -
FY19-20	\$ -	\$ -	\$ -
FY20-21	\$ 23,660,000	\$ 284,375	\$ 23,375,625
FY21-22	\$ 23,660,000	\$ 284,375	\$ 23,375,625
FY22-23	\$ 23,660,000	\$ 284,375	\$ 23,375,625
FY23-24 and subsequent years	\$ 94,640,000	\$ 1,137,499	\$ 93,502,501

- Occupational privilege tax returns are filed electronically and the DOR does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of phasing out the occupational privilege tax.
- Calculations used in this fiscal note have been omitted for the purpose of brevity. However, these calculations are on file with the Fiscal Review Committee staff and can be provided upon request.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

/jdb